



BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

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Order Instituting Investigation to Consider
Policies to Achieve the Commission's
Conservation Objectives for Class A Water
Utilities

I.07-01-022
(January 11, 2007)

**RESPONSE OF THE DIVISION OF RATEPAYER ADVOCATES
TO PETITION OF GOLDEN STATE WATER COMPANY
TO MODIFY ORDER**

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February 16, 2007

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Pursuant to Rule 16.4(f) of the Commission's Rules of Practice and Procedure (Rules), and the commitment of the Division of Ratepayer Advocates (DRA) to respond by February 16, 2007,¹ DRA submits this Response to the Petition of Golden State Water Company to Modify Order (Petition).²

I. OVERVIEW

Golden State Water Company's (GSWC or Golden State) Petition objects to the consolidation of its Application for Authority to Implement Changes in Ratesetting Mechanisms and Reallocations of Rates (Application) filed September 5, 2006 (A.06-09-006) into this Investigation.³ Towards that end, Golden State is requesting that the Commission remove its Application from this proceeding or, in the alternative, it seeks leave to "amend or modify the portions of its Application and prepared testimony

¹ Transcript (Tr.) 37:3-26.

² Petition of Golden State Water Company to Modify Order (February 6, 2007).

³ Because the OII does not include all of the issues raised in A.06-09-006, Golden State considers the consolidation to be a "partial consolidation" not allowed under the Commission's Rules. Petition at 11-12.

consolidated into this [proceeding] that do not accurately reflect the Company's position in this Investigation...."⁴

As DRA discussed in its Response on the Preliminary Scoping Memo in this proceeding, the requests in Golden State's Application fall generally into the categories of "conservation issues" or "non-conservation issues." "Conservation issues" include Golden State's proposals for increasing block rates,⁵ a Water Revenue Adjustment Mechanism (WRAM), and certain water shortage allocation policies.⁶ The numerous "non-conservation issues" encompass a wide variety of issues that include proposals for water quality memorandum accounts (WQMAs), a long-term plan for water infrastructure projects, an infrastructure system replacement surcharge (ISRS), and "a single, statewide rate."⁷

To resolve the procedural complexity that Golden State's Application now presents, (in a manner that is consistent with the goals of this Investigation), the Commission should remove all "non-conservation issues" in Golden State's Application, and require that the company submit conservation rate proposals that are district-specific for the purposes of this Investigation. In particular, DRA recommends the following:

- The Commission should deny Golden State's entire Application (A.06-09-006) without prejudice.
 - Golden State should be allowed to file a new application with a separate docket number to address the Golden State proposals that are not related to conservation (the non-conservation issues).
 - In turn, this Investigation should not address any of Golden State's non-conservation proposals.
- The Commission should require Golden State to submit district-specific conservation rate designs in this Investigation.

⁴ Petition at 12.

⁵ The conservation rates proposed in A.06-09-006 are based on the assumption that Golden State would get authority to implement a single, statewide rate. *See* Petition at 10.

⁶ *See* Petition at 4; Response of the Division of Ratepayer Advocates on Preliminary Scoping Memo (January 29, 2007) (DRA Response on Scope) at 5-6.

⁷ *See* Petition at 4.

- The revised rates should not be based on a single, statewide rate.
- The revised rates should be addressed after the Commission adopts principles for conservation rate design in this Investigation.

II. DISTRICT-SPECIFIC CONSERVATION RATES SHOULD BE FILED IN THIS INVESTIGATION

DRA agrees with Golden State that the conservation rates⁸ currently proposed in Golden State’s Application should not be addressed in this proceeding because they assume Commission approval of its request for statewide rates.² As Golden State itself states in its Petition, “The Company’s current increasing block rate proposal is predicated upon consolidation of its existing ratemaking districts and deriving rates that would be applicable throughout the consolidated areas.”¹⁰

However, DRA does not support Golden State’s request to merely remove or unconsolidate Golden State’s Application from this Investigation such that its conservation rates are addressed in a second phase of a separate Application proceeding. Golden State’s Application originally proposed a two-phased proceeding in which “the various GSWC ratesetting policy proposals put forth in the Application, including the increasing block rate proposal and the WRAM proposal” are resolved in a policy phase, and final rates would be developed in a second, implementation phase.¹¹ Golden State now proposes to “suspend” consideration of its proposed conservation rates until after the Commission adopts conservation rate policies in this Investigation and after resolution of the non-conservation issues in the separate Application proceeding.¹² Golden State states that, “[a]t that time, GSWC would determine whether its conservation rate proposals in

⁸ DRA has recommended that parties use the term “conservation rates” rather than the more narrow term “increasing block rates.” DRA Response on Scope at 3. DRA will therefore use the term “conservation rates” in this pleading.

² See DRA Response on Scope at 5.

¹⁰ Petition at 10.

¹¹ Petition at 5.

¹² Petition at 12.

its Application would need to be modified in light of the Commission’s policy decisions in this Investigation.”¹³ Furthermore, in response to Commissioner Bohn’s question at the February 7, 2007 Prehearing Conference regarding how long the ‘mechanics’ of developing district-by-district for Golden State would take, Mr. Keith Switzer stated: “I hate to commit to a schedule that I can’t meet, but I’m sure it’s a several-months process to do all nine [of Golden State’s districts].”¹⁴

DRA now urges the Commission to require Golden State to file district-specific conservation rate designs as soon as possible. To do otherwise increases the potential for unnecessary delay. The Commission must remain mindful of its overall objectives in this proceeding including its stated preference to quickly establish conservation rates for California’s Class A Water Companies. While DRA had concerns about the unnecessary duplication of rate design work if district-specific conservation rates for Golden State are adopted in this OIL, and then the Commission approves statewide rates for Golden State,¹⁵ the importance of implementing conservation rates soon for all companies leads DRA to recommend that the Commission address district-specific rates for Golden State as soon as possible, even if the issue of statewide rates is outstanding. Thus, in light of Golden State’s estimate for how long it would take to develop district-specific conservation rates for all its districts, and because it is unclear how quickly the separate proceeding on non-conservation issues would proceed, DRA recommends that Golden State immediately begin developing district-specific conservation rate designs for its districts.

Furthermore, the Commission should require Golden State to file those district-specific proposals in this Investigation, rather than in a separate proceeding that is considering Golden State’s non-conservation issues. Immediately after the Commission adopts policies for conservation rates in this Investigation, the proposals of Golden State

¹³ Petition at 12-13.

¹⁴ Tr. 34:15-17.

¹⁵ Tr. 35:17-28 – 36:1-6.

and any other company could be considered based on what the Commission has decided thus far in this proceeding.¹⁶

DRA notes that, to the extent that Golden State seeks a balancing account to track variations in production costs,¹⁷ the issue should be included in Golden State's district-specific conservation rate proposals, and not as part of Golden State's proposal to consolidate 27 offset balancing accounts or any other non-conservation proposal (to be addressed in a separate proceeding). DRA further notes that, based on the limited time for settlements in DRA's Proposed Schedule, DRA's workload constraints, and the time it would likely take Golden State to prepare district-specific proposals, DRA does not anticipate that it will be able to engage in settlement discussions on new conservation rates proposed by Golden State in the first "settlements" phase of DRA's proposed schedule.¹⁸

III. GOLDEN STATE SHOULD FILE A NEW APPLICATION ON NON-CONSERVATION ISSUES

As DRA stated in its Response on the Preliminary Scoping Memo, the issues in GSWC's Application that are not related to conservation should be removed from this proceeding.¹⁹ These issues include: (1) Water Quality Memorandum and Water Quality Compliance Offset Accounts; (2) Long Term Planning for Water Infrastructure Projects; (3) Infrastructure System Replacement Surcharge; (4) State Bond Funding of Water Infrastructure Projects; (5) Cost Recovery of Expenses and Earnings Test; (6) Single,

¹⁶ Furthermore, if the Commission were to approve statewide rates for Golden State (in a separate proceeding), attempting to then develop conservation rates would appear to be incompatible with that decision. As DRA stated in its Protest to Golden State's Application, "Tiers designed to encourage conservation are based on local consumption patterns, not statewide water use....Since GSWC's districts are scattered around the state, each district will have different consumption patterns and base line use." Protest Of The Division Of Ratepayer Advocates To The Application Of Golden State Water Company For Authority To Implement Changes In Ratesetting And Allocation Of Rates (October 10, 2006) (A.06-09-006) at 12.

¹⁷ See Application at 10.

¹⁸ Negotiating a settlement with Golden State would likely be feasible only if 4-6 weeks were added to DRA's proposed "settlements" phase.

¹⁹ DRA Response on Scope at 5-6.

State-Wide Rate for GSWC Operations; (7) Regulatory and Investment Environment Policy Changes; and (8) Consolidation of Non-Viable Water Utilities.

Golden State's request to address these non-conservation issues in a concurrent proceeding is consistent with DRA's recommendation, except DRA urges the Commission to require the company to file a new application containing its non-conservation issues. If the Commission effectively reinstituted A.06-09-006 by removing Golden State's Application from this proceeding, and addressed all conservation-related issues in this Investigation, the remaining record in A.06-09-006 would likely be confusing. Golden State itself describes the Application as "address[ing] a broad range of proposals, many of which are intertwined and interdependent."²⁰

DRA is not insensitive to the concern that Golden State has invested resources to inform customers of its original application (A.06-09-006). Nevertheless, if the Commission seeks to consider district-specific conservation rates for Golden State as soon as possible in this Investigation and adopts DRA's recommendations, neither conservation rates, nor WRAM, nor conservation-related balancing accounts would be considered in what remains of A.06-09-006. It is therefore likely that the customer notice provided thus far in A.06-09-006 would need to be revised accordingly.

IV. PROCEDURES TO IMPLEMENT DRA'S RECOMMENDATIONS

To effectuate DRA's recommendations described above, DRA recommends that the Commission deny A.06-09-006 without prejudice (or allow withdrawal of the Application upon request by Golden State). This would allow Golden State the opportunity to file an application addressing only non-conservation issues, including its request for a single, statewide rate.

To implement conservation rates for Golden State in a timely manner, the Commission should also require Golden State to file district-specific conservation rates in this proceeding. If DRA's proposed schedule is approved, Golden State's district-

²⁰ Petition at 4.

specific conservation rates would be addressed in Phase III, which DRA reserved for developing company-specific rates based on the principles adopted by the Commission in the policy phase of this proceeding.

V. CONCLUSION

For the reasons discussed above, DRA urges the Commission to deny Golden State's Petition without prejudice and order Golden State to file district-by-district conservation rate designs in this Investigation.

Respectfully submitted,

/s/ Natalie D. Wales

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February 16, 2007

Attorneys for
DIVISION OF RATEPAYER ADVOCATES

CERTIFICATE OF SERVICE

I hereby certify that I have this day served a copy of “**RESPONSE OF THE DIVISION OF RATEPAYER ADVOCATES TO PETITION OF GOLDEN STATE WATER COMPANY TO MODIFY ORDER**” in **I.07-01-022** by using the following service:

[X] **E-Mail Service:** sending the entire document as an attachment to all known parties of record who provided electronic mail addresses.

[X] **U.S. Mail Service:** mailing by first-class mail with postage prepaid to all known parties of record who did not provide electronic mail addresses, if any.

Executed on February 16, 2007 at San Francisco, California.

/s/ Joanne Lark

Joanne Lark

N O T I C E

Parties should notify the Process Office, Public Utilities Commission, 505 Van Ness Avenue, Room 2000, San Francisco, CA 94102, of any change of address and/or e-mail address to insure that they continue to receive documents. You must indicate the proceeding number on the service list on which your name appears.

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